

[BIDDER LETTERHEAD]

August 28, 2013

Dr. Nicholas Wolter
Chief Executive Officer
Connie Prewitt
Chief Financial Officer
[BIDDER]
P.O. Box 37000
Billings, MT 59107

LETTER OF INTENT

Dear Dr. Wolter and Ms. Prewitt:

The purpose of this letter of intent (this “Letter”) is to set forth certain non-binding understandings and certain binding agreements by and between Community Medical Center (“Hospital”) and [BIDDER] (“Bidder”) pursuant to which Hospital intends to sell certain assets and operations of Hospital to Bidder, as more particularly described in the attached term sheet (the “Term Sheet”), incorporated herein by reference.

Paragraphs 1 through 24 of the Term Sheet (collectively, the “Non-Binding Provisions”) reflect our mutual understanding of the matters described in them, but each party acknowledges that the Non-Binding Provisions are not intended to create or constitute any legally binding obligation between Hospital and Bidder, and neither Hospital nor Bidder shall have any liability to the other party with respect to the Non-Binding Provisions until a definitive agreement and other related documents (collectively, the “Definitive Agreement”) are prepared, authorized, executed and delivered by and between the parties. If the Definitive Agreement is not prepared, authorized, executed, and delivered for any reason, neither party to this Letter shall have liability to the other party to this Letter based upon or relating to the Non-Binding Provisions.

Upon execution by the parties to this Letter, Paragraphs 25 to 27 of the Term Sheet (collectively, the “Binding Provisions”) will constitute the legally binding and enforceable agreement of the parties in recognition of the significant costs to be borne by the parties in pursuing the transaction and further in consideration of the mutual undertakings as to the matters described herein.

The Binding Provisions may be terminated only by mutual written consent; provided, however, that the termination of the Binding Provisions shall not affect the liability of a party for breach of any of the Binding Provisions prior to the termination. This Letter shall be construed and enforced in accordance with the laws of the State of Montana. No signatory hereto shall assign this Letter to any third party.

Notwithstanding the foregoing, this Letter is intended to evidence the understandings which have been reached regarding the proposed transactions and the mutual intent of the parties to negotiate in good faith a Definitive Agreement in accordance with the terms contained in the Term Sheet.

Each party acknowledges that it is a party to that certain Mutual Confidentiality and Non-Disclosure Agreement, dated June 18, 2013, and that such agreement remains in full force and effect.

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If the terms herein are acceptable, please sign and date this Letter in the space provided below to confirm the mutual agreements set forth in the Binding Provisions and return a signed copy to the undersigned.

Sincerely:

COMMUNITY MEDICAL CENTER

By: _____
Steve Carlson
Chief Executive Officer

Date: _____

ACKNOWLEDGED AND AGREED:

[BIDDER]

By: _____
[NAME]
[TITLE]

Date: _____

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Non-Binding Provisions	
1. Parties	<p>a) Community Medical Center, a Montana nonprofit corporation that is exempt from federal taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and all of its controlled affiliates (collectively, "Hospital"). Hospital is the parent company of an integrated healthcare system providing acute care and general health services to residents of western Montana and Idaho (collectively, the "Business").</p> <p>b) [Bidder], a community-owned health care organization together with one or more of its subsidiaries (collectively, "Bidder").</p>
2. Form of Transaction	<p>Bidder, through one of its subsidiaries (the "Subsidiary"), intends to purchase substantially all of the operating assets of the Business (the "Purchased Assets") from Hospital (the "Transaction").</p>
3. Purchased Assets and Assumed Obligations	<p>a) The Purchased Assets shall consist of all of the operating assets of Hospital other than the "Excluded Assets" identified below. The Purchased Assets will include:</p> <ul style="list-style-type: none"> i. Net working capital assets (including inventories, patient accounts receivable, other receivables, and prepaid expenses and advances); ii. owned and leased real property; iii. equipment; iv. patient, medical, personnel and other records of the Business; v. licenses, permits, and trade names (to the extent transferable); vi. operating contracts and leases related to the Business; and vii. interests held by Hospital in joint ventures related to the operation of the Business. <p>b) The following shall be excluded from the Purchased Assets (the "Excluded Assets):</p> <ul style="list-style-type: none"> i. Cash, cash equivalent and investments; ii. amounts that may result from post-Closing settlements of cost reports, appeals and other risk settlements that relate to pre-Closing periods; iii. amounts earned, accrued or paid with respect to Meaningful Use attested to, or for which the requirements for attestation have been substantially met, prior to the Closing; iv. assets whose use is limited or restricted; v. other long term investments; vi. commercially unreasonable contracts or contracts that raise regulatory concerns; and vii. other current and long term assets not related to current operating activities.

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	<p>c) Bidder will assume such obligations of Hospital as is usual and customary in transactions similar to the Transaction.</p> <p>d) Exhibit A hereto reflects the estimated allocation of the assets and liabilities between Bidder and Hospital based on the June 30, 2013 balance sheet of Hospital.</p>
4. Treatment of CMC Foundation	<p>Prior to executing the Definitive Agreement (as defined in Paragraph 27 hereof), CMC Foundation, at its sole discretion, may request, as a result of the Transaction, Hospital to withdraw or otherwise give up its position as the sole member of CMC Foundation immediately prior to the Closing. In such event, CMC Foundation shall have the right to retain, and exclude from the Transaction, the assets of CMC Foundation at the time of such withdrawal and to continue to operate as an independent tax-exempt entity.</p>
5. Closing	<p>The closing of the Transaction is referred to herein as the “Closing.”</p>
6. Consideration	<p>a) Bidder shall pay a purchase price (the “Cash Purchase Price”) of [\$_____ million] in cash at Closing minus any long-term debt or capitalized leases (including current portions) that are assumed by Bidder at the Closing.</p> <p>b) Subsequent to the execution of the Letter of Intent (the “Letter”) in which this Term Sheet is incorporated by reference, Bidder shall not propose any reduction of, or other direct or indirect change to, the Cash Purchase Price, except for the determination of Net Working Capital (as defined in Paragraph 7 hereof) or in the event that Bidder discovers, during confirmatory due diligence, a fact or circumstance, of which Bidder was previously unaware, directly related to the operation of the Business that may reasonably result in a Material Adverse Change as defined in Paragraph 24 b) hereof.</p>
7. Net Working Capital	<p>a) The Cash Purchase Price assumes Net Working Capital (as defined below) of \$[_____] at the Closing and the Cash Purchase Price will be adjusted upward (or downward) to the extent that Net Working Capital exceeds (is less than) such amount.</p> <p>b) “Net Working Capital” is comprised of inventories, patient accounts receivable, other receivables, prepaid expenses and advances that have continuing value to the operations of the Business and accounts payable, accrued salaries and expenses, accrued vacation expenses and any PTO whether recorded or unrecorded, with appropriate adjustment for such unrecorded amount.</p>
8. Treatment of Indebtedness	<p>Bidder will not assume, and Hospital will remain liable for all existing indebtedness (including capital leases) with such amounts to be paid out of the Cash Purchase Price.</p>
9. Capital Commitment	<p>For a period of ten (10) years after the Closing, Bidder shall commit to fund annual average capital expenditures at not less than 110% of the Business’ annual depreciation to fund the development of projects and services for the benefit of the residents of the Business’ primary service area, subject to deferral based on mutually agreed upon exceptions for exigent financial circumstances and regulatory requirements.</p>

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<p>10. Subsidiary Governance</p>	<ul style="list-style-type: none"> a) As of the Closing, Bidder will establish a ten (10) member non-fiduciary Board of Trustees for the Subsidiary (the “Local Board”). The Local Board will be comprised of four (4) physicians, five (5) community leaders and the local Chief Executive Officer, <i>ex officio</i>. b) The initial members of the Local Board shall be appointed in consultation with Hospital. c) The Local Board shall be self-perpetuating consistent with the Subsidiary’s governing documents. d) In general, financial, strategic and other decisions of the Local Board will require approval by Bidder. e) The Local Board will provide recommendations to Bidder regarding the establishment of hospital policies, the maintenance of patient care quality and provision of clinical service and community service planning in a manner responsive to local community needs. f) Subject to certain limited exceptions, the duties of the Local Board will include, but not be limited to the following: <ul style="list-style-type: none"> i. Ensure compliance with all accreditation requirements including but not limited to credentialing and other medical staff matters; ii. Provide oversight for institutional planning, make recommendations for new clinical services, participate in an annual review of the Business’ strategic and financial plan and goals; iii. Review and have input into any substantive changes in the services provided by the Business. iv. Review and recommend approval of operating and capital budgets as well as make recommendations with respect to capital expenditures fulfilling commitments made by Bidder in the Definitive Agreement (as defined in Paragraph 27 hereof); v. Make recommendations with respect to quality assessment and improvement programs; vi. Provide oversight of risk management programs relating to patient care and safety; vii. Foster community relationships and identify community service opportunities; viii. Review disaster plans that deal with both internal (e.g., fire) and external disasters; and ix. Evaluate recruitment needs to ensure adequate medical staff capacity to continue to meet community needs.
<p>11. Commitment to Quality, Safety, and Patient Satisfaction</p>	<p>After the Closing, Bidder shall operate the Business with a commitment to quality, safety and patient satisfaction including maintaining Joint Commission accreditation and participation in the Medicare, Medicaid, and TriCare programs.</p>
<p>12. Commitment to Teaching Programs</p>	<p>Bidder shall maintain and continue to support Hospital’s current residency training programs and will seek to expand the training of residents at the Business in a reasonable and appropriate manner in order to support the recruitment and retention of physicians in Hospital’s community.</p>

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13. Limitations on Change of Control or Sale	<p>For a period of ten (10) years after the Closing (the “Initial Ten Year Period”), Bidder will not (i) enter into a merger or other form of a transfer or change of control transaction with a third party with respect to the Business (a “Change of Control Transaction”), or (ii) sell, convey, or otherwise transfer all or substantially all of the assets of the Business to a third party (whether in a single transaction or in a series of transactions) (an “Asset Sale”); provided the foregoing restrictions of this Paragraph 13 shall not apply to a change of control of Bidder.</p>
14. Right of First Refusal	<p>Following the restrictions set forth in Paragraph 13 hereof, Hospital or its designee will maintain in perpetuity a right of first refusal to purchase the Business under essentially the same terms and conditions provided to or by Bidder if Bidder agrees to sell or transfer substantially all of the assets and operations of the Business to an unaffiliated third party. Hospital shall have 60 days to exercise its right and 180 days to close, subject to extensions necessary to accommodate any regulatory approvals. The foregoing restriction shall not apply to a change of control of Bidder or a sale of Bidder’s interests in multiple facilities in which the value of the Business represents less than seventy-five percent (75%) of the total value (based upon net revenue) of the transaction.</p>
15. Maintenance of Clinical Services	<p>Subject to mutually agreed upon exceptions for exigent financial circumstances and regulatory requirements, Bidder shall agree to maintain essential clinical services and departments at not less than current levels (“Essential Services”) at the Business’ current acute care hospital for a period of ten (10) years after the Closing. Essential Services shall include the following services lines and departments: ICU/CCU, NICU, med/surg, pediatrics, orthopedic, mother/baby, rehabilitation, labor and delivery, inpatient and outpatient surgery, recovery, laboratory, electrodiagnostics, stress testing, cath lab, CT scan, diagnostic imaging, ECHO, endoscopy, pharmacy, respiratory therapy, emergency, pediatrics specialty clinic, departments of Community Physician Group, Community Care Center (chemotherapy and radiation therapy), IVO – infusion therapy, CMC cardiology and outreach, nuclear medicine, trauma (level III), wound care clinic, childbirth education classes, MT Pediatric Surgery, sterile supply, and materials management.</p>
16. Charity Care and Community Obligations	<p>Bidder acknowledges that Hospital has historically provided significant levels of care for indigent and low-income patients and has also provided care through a variety of community-based health programs. Bidder shall adopt, maintain, and adhere to Hospital’s current policies on charity and indigent care or adopt other policies and procedures that are at least as favorable to the indigent and uninsured as Hospital’s existing policies and procedures. Bidder shall also continue to provide care through community-based health programs, including cooperation with local organizations that sponsor healthcare initiatives to address identified community needs and improve the health status of the elderly, poor, and other at-risk populations in the community.</p>
17. Medical Staff Matters	<p>a) Bidder intends to involve the Business’ physicians in the strategic and capital planning process for the Business, insuring that the critical needs of the medical staff are met and that strategic initiatives and investments are prioritized to best meet the needs of medical staff physicians and their patients.</p> <p>b) Bidder shall commit to provide the necessary resources to effectively recruit and retain a quality medical staff consistent with a recruitment plan to be mutually agreed to by the parties prior to the Closing, which the parties expect will contemplate the recruitment of an additional 60 FTEs over a three-year period covering a broad range of specialties including, but not limited to,</p>

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	cardiology, emergency medicine, surgery, oncology, obstetrics / gynecology, hospitalists, neurology, neurosurgery, ENT and urology.
18. Employee Matters	<p>a) Bidder shall maintain wages and benefits, with no downward pay adjustments for at least 12 months after the Closing, to all Hospital employees retained by Bidder.</p> <p>b) Bidder shall commit to honor all existing severance agreements between Hospital and Hospital's employees.</p> <p>c) Hospital employees shall retain their current seniority and vesting in Hospital's or any successor benefit programs.</p> <p>d) Hospital employees retained by Bidder shall retain their current seniority for purposes of determining vacation accruals after the Closing.</p> <p>e) As of the Closing, Bidder shall provide Hospital employees with a retirement plan, vacation, sick leave, holidays, health insurance, life insurance, and other employee benefits consistent with the current benefit plans in effect at Hospital or those Bidder benefit plans in effect from time to time with no waiting periods or pre-existing condition limitations for any benefit plan offered by Bidder to current Hospital employees.</p> <p>f) Bidder agrees to honor any existing collective bargaining agreements.</p>
19. Treatment of Contracts	Bidder shall accept assignment of and assume all obligations arising after the Closing under contracts, operating leases, physician arrangements and other operating obligations of the Business, with no offset against the Cash Purchase Price; <u>provided, however</u> , that Bidder shall not be obligated to assume commercially unreasonable contracts or contracts that raise regulatory concerns.
20. Indemnification	Bidder and Hospital shall agree to indemnification provisions along with certain limitations usual and customary in transactions of this type.
21. Medicare Provider Number	Bidder will assume Hospital's Medicare acute-care hospital provider number.
22. Tail Policies	As of the Closing, Bidder shall provide and pay for appropriate tail insurance policies to cover Hospital directors' liabilities and such other risks as applicable.
23. Transition	<p>a) Subject to applicable regulatory requirements, Bidder shall have the opportunity to provide limited input to significant business activities of Hospital after execution of the Definitive Agreement and prior to the Closing including, but not limited to:</p> <ul style="list-style-type: none"> i. Capital expenditures in excess of \$1.0 million not included in Hospital's routine annual capital and operating budgets. ii. Significant new contracts in excess of \$250,000 in annual expense. iii. Changes in title or assignment of specified senior executives. <p>b) In addition, Hospital shall work with Bidder to perform, or cause to be performed, any act, submission or filing, including the Letter for the purpose of application for a Certificate of Need ("CON"), as is necessary and directed by Bidder including CON's necessary for Hospital to remain competitive in its marketplace.</p>
24. Closing	a) The Closing shall take place as soon as practicable after all required regulatory and other approvals for the Transaction have been obtained, unless otherwise

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	<p>mutually agreed by the parties to the Letter. The Closing will be subject to mutually agreed closing conditions, including but not limited to (i) completion of a satisfactory due diligence review of the Purchased Assets and the Business, (ii) receipt of surveys, title insurance commitments and environmental and engineering surveys reasonably satisfactory to Bidder, (iii) receipt of all necessary regulatory approvals and permitted license transfers, (iv) delivery of documents of conveyance and assignment, (v) expiration of the “waiting period” under the HSR Act, and (vi) no “Material Adverse Change” (as defined below) shall have occurred.</p> <p>b) “Material Adverse Change” shall mean an event, change or circumstance which, individually or together with any other event, change or circumstance would be reasonably expected to have a material adverse effect, either individually or in the aggregate, on the business, assets, liabilities, financial condition or results of operations of the Business whether such effect would be realized before or after the Closing; provided, however, that a Material Adverse Change shall not include: (i) changes in the financial or operating performance due to or caused by the announcement of the Transaction or seasonal changes; (ii) changes or proposed changes to any law or regulation, reimbursement rates or policies of governmental agencies or bodies that are generally applicable to hospitals or health care facilities; (iii) requirements, reimbursement rates, policies or procedures of third party payors or accreditation commissions or organizations that are generally applicable to hospitals or health care facilities; (iv) general business, industry or economic conditions, including such conditions related to the Business; (v) local, regional, national or international political or social conditions, including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack; (vi) changes in financial, banking or securities markets (including any disruption thereof and any decline in the price of any security or any market index); or (vii) changes in GAAP.</p>
Binding Provisions	
25. Expenses	<p>a) Each party shall bear its respective legal, accounting and other expenses and costs in connection with the Transaction; provided, however, if the Transaction is consummated, Bidder will bear all such expenses.</p> <p>b) Bidder and Hospital shall split the cost of title insurance upon the real property to be leased and the cost of a survey of such property, as well as all recording taxes and fees payable in respect of the Transaction.</p> <p>c) Bidder shall pay the filing fee, if any, required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the “HSR Act”) and all expenses of inspecting the Purchased Assets, including the cost of any environmental surveys.</p>
26. Press Release	Except as otherwise required by law, all press releases or other public communications of any sort relating to the Transaction, and the method of the release for publication thereof, will be subject to the prior approval of both parties.
27. Legal Effect and Diligence	<p>a) This Term Sheet is subject to and contingent upon due diligence review and the negotiations, approval, and execution of all necessary definitive agreements and related documents (“Definitive Agreement”). Upon execution of the</p>

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	<p>Letter, Bidder and Hospital will negotiate in good faith the terms and conditions of the Definitive Agreement.</p> <p>b) As part of Hospital’s due diligence on Bidder, Bidder shall in reasonable detail describe its strategy for the Business post-Closing including, but not limited to, steps to reduce expenses at the Business through implementation of best practices and reduction of overhead.</p> <p>c) The Letter and this Term Sheet are not intended, and shall not be construed, to create an obligation that Hospital negotiate exclusively with Bidder regarding the Transaction or any similar strategic transaction; provided that Hospital will neither engage in any due diligence review nor execute a term sheet or similar preliminary document with any other party relating to a change of control transaction or asset sale of all or substantially all of the assets of the Business, unless Hospital first notifies Bidder of Hospital’s intention to do so. Upon execution of the Letter by both parties, Bidder and Hospital will conduct and cooperate in reasonable due diligence regarding the Transaction, including without limitation the Business and parties to the Transaction. Bidder and Hospital intend that the period of diligence not exceed 45 days and that the Definitive Agreement be approved and executed within 30 days thereafter.</p>
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